

MAY 20, 2014 – HERALD SQUARE PROPERTIES IN THE NEWS – By Lois Weiss – In Print on page 29

Garment District is fast becoming another Silicon Alley



Over the past several years, the Garment District has morphed from a fashion-centric area into a tech-friendly haven.

The Broadway corridor has changed as new owners have reoriented tenancies from large fashion corporations to the newly dubbed TAMI tenants — Tech, Advertising, Media and Information.

The official Garment District Alliance area runs from 41st to 35th Streets and Fifth to Ninth Avenues, covering some 34 million square feet of properties.

Investors are pushing those boundaries while seeking side street buildings to spruce up for tech tenants.

Eastdil Secured marketed and sold 1370 Broadway, 1372 Broadway, a large stake in 1411 Broadway — which some consider one of the last major fashion anchors — as well as 1440 Broadway. “A major driver in these deals has been the shift and migration of diverse tenants from other submarkets to the corridor, which we think will continue,” said Kevin Donner of Eastdil.

But now, side street properties and those west of Seventh Avenue and south of 34th Street are becoming new investment targets as rents push upwards to take advantage of higher-paying TAMIs.

They are relocating to the Garment District “because the pricing is so out of control in the rest of Midtown South,” observed David Levy of Adams & Co., and his fashion buildings are benefiting from the migration.

Gary Rosenberg, a law partner with Rosenberg & Estis, says investors are looking at anything that comes up for sale in the Garment District, particularly because they feel the high rents in Midtown South will rub off on any adjacent areas.

Robert Knakal, chairman of Massey Knakal, agrees: “On a price-per-square-foot basis, side street buildings in the Garment Center provide some of the most compelling prices in Manhattan.”

Gerard Nocera of Herald Square Properties is among those buying and improving old Garment Center buildings and looking for others.



“If you are located well and have good bones, good ceiling heights and an affordable rent in the mid-\$40s, you will be successful,” Nocera predicted.

Herald Square Properties’ newest property at 142 W. 36th St. is a traditional, wedding cake-style office building with set-backs that create lots of light and air. Already, the commercial office website, View the Space, has signed a deal for the entire 7,160-square-foot 12th floor. Paul Amrich, of CBRE, is leading the leasing efforts for the ownership.

Herald Square also purchased 234 W. 39th St. between Seventh and Eighth Avenues. They are targeting fashion tenants for this loft building and keeping rents in the \$30s per foot. “Fashion is being pushed off the avenues and they are looking for a better building on the side streets,” said Nocera, who believes most of W. 39th St. will remain a fashion corridor.

Although the Fashion Atrium at 485 Seventh Ave. still houses fashion folks, it recently signed Priceline.com. Catherine O’Toole, managing member of Tarter Stats O’Toole, said, “We are transitioning the property to a tenancy towards high-end fashion brands with a blend of architects, public relations and engineering.” Asking rents are now \$49 per foot.

A broker who predominantly concentrates in the tony Plaza District, Robert Emden, of Newmark Grubb Knight Frank, is working on a deal at 10th Avenue in the West 30s for one of his private equity investment clients. “There is no area today we are seeing that is not able to accommodate tech firms,” said Emden.

He is also currently involved in a renewal for a prominent fashion tenant. That rent is up 10 percent from its escalated rent and up over 30 percent from its rent a decade ago. “The reason the side street buildings are sought after is because of the pricing,” Emden said.



Garment tenant rents still depend on the building and can range anywhere from the mid-\$30s to the \$60s per foot. “The Port to Penn area can break \$40 a foot,” said Corey Abdo, executive managing director of leasing and sales at Coldwell Banker Commercial Alliance.

Empire State Realty Trust’s 112 W. 34 St. just signed Macy’s to about 120,000 square feet for offices, which could eventually expand to 400,000 square feet.

Donna Karan’s headquarters at 240 W. 40th St. sold to AEW Capital Management for \$63 million through a JLL team last year. Her lease expires in 2016, but with shrinking choices, the designer may renew.

Richard Baxter, vice chairman of JLL, said, “The property sizes and resulting transaction sizes — typically under \$100 million for side street properties — draw great interest from individual and institutional investors.”

Last year, Hidrock Realty sold 65 W. 36th St. for \$29 million to the Sioni Group, which is already signing up non-fashion tenants.